CVPS Low Income Principles and Proposed Program Preferences

Submitted to PSB, September 25, 2006

The following is an outline of Principles and Proposed Program Preferences associated with a Low Income Electric Affordability Program to be administered in part via the state's electric utilities.

Funding Level: Consistent with its long held input in the PSB's Docket No. 5308 (Board Investigation Into the Adoption and Implementation of Energy Programs for Low-Income Households), CVPS does not have a recommendation for a specific total funding level or level of benefit needed per recipient. The Company continues to believe that those judgments are rightfully the job of the Legislature. However, CVPS wants any program that is authorized to be a success. CVPS urges that the funding level be sufficient to meet a legislatively determined need of a designated recipient population so as not to create a waiting list of designated recipients unserved due to inadequate funding.

Funding Mechanism: In order of preference, CVPS supports funding of the Low Income Electric Affordability Program via the Vermont General Fund. This will be less regressive and additional costs layered onto electric bills will reduce affordability in Vermont as well as the relative competitiveness of business customers. If funding is to come from electric utility customers, then the Company would prefer that funding come via an all energy-based gross receipts tax increase, which would include funding from non-electric energy providers. We note that electric utilities currently pay a gross receipts tax that funds predominantly non-electric heating weatherization initiatives.

If funding is to come from electric utility customers via a mechanism other than an increase to the gross receipts tax, the Company would prefer that it be collected via a percentage surcharge on electric revenues. A uniform surcharge on the electric bill creates a uniform percentage bill increase for all classes of customers. A uniform percentage surcharge is more equitable to commercial and industrial customers than a uniform $/kWh charge would be. For example, a three mill per kWh charge equates to a 3.75% effective bill increase for an industrial customer whose average bill is eight cents per kWh, while a 3 mill per kWh charge equates to a 2.50% effective bill increase for a residential customer whose average bill is twelve cents per kWh. Such a surcharge is a transparent mechanism that will enable the public to understand the breakdown of costs reflected on the electric bill and is consistent with the policies that underlie the Energy Efficiency Charge as established by the Vermont General Assembly.

Pooling of Funds: If funding is to come from electric utility revenues, then the Company supports a statewide pooling of funds. Central administration of application, certification and re-certification is necessary to provide program benefits to as many participants as pooled funding will allow. To do otherwise may result in particular utilities having to create a waiting list because intra-utility funding is unavailable while other utilities may have an excess of program revenue with no waiting list.

Administration:
The cost and administrative feasibility of alternative low income affordability program designs are of primary importance to the Company and the area where the Company has experience and information that will be needed by the PSB in understanding what it will take to make alternative programs work. We ask that the Board's ongoing process provide for input from the utilities on the administrative pluses and minuses of proposals that it wishes to consider. As a general matter, programs that require utilities to make volume or volume and income based calculations for customers individually or which involve complex rules and arrearage tracking and crediting can imply long lead times and extremely large amounts of staff work and information system expenditure. For those reasons and the reasons stated below, we favor programs that both meet the needs of eligible customers as determined by the Legislature and which are administratively less complex. Since CVPS believes that the start-up and ongoing administrative costs associated with the low income affordability program should be borne by the program, a focus on the simplest program design will assure that the maximum percentage of program expenditures will be devoted to participant benefits.

Bill Format/ Rate Changes: The Company could implement a line item showing the amount of money that is being collected via a surcharge (or $/kWh charge)(*e.g.,* a "systems benefits charge"). Alternatively, if collected via an increase to the gross receipts tax, the Company would need to make a tariff change that embedded the program's cost in the Company's overall revenue requirement. If the gross receipts tax is used the Legislature should provide the PSB specific authorization to change tariff rates to reflect that change as a single cost of service item without the need for general rate investigation.

Application, Certification and Re-certification: Application, Certification and Re-certification will need to be provided by the Agency of Human Services. This could be accomplished through arrangements developed by the Agency with the regional CAP agencies. The Company is not in a position to ask for customer income data and believes that it is bad policy to make utilities collect and keep such information. In addition, the Company does not want to be in that position and believes it will erode customer's perception of the quality and fairness of its service. Depending on the program design and implementation time allowed, protocols for electronic transfer of uniform data to utilities will need to be a high priority. It will also be necessary to develop appropriate confidentiality arrangements so that the utilities can receive and use the participant eligibility data.

Management of the application, certification and re-certification process is no small task. Customers will move within utility service territories, between utility service territories and out of state. Unless these accounts are managed via centralized administration, using daily two-way data transfer, these accounts will be dropped from the program and will need to re-apply, perhaps temporarily un-served or finding themselves at the bottom of a waiting list. Moreover, CVPS does not believe that utilities should be required to admit customers to programs retroactively and that daily data transfer should eliminate this possibility.

Program Designs: There are several program designs that CVPS would be able to implement without major, costly customer information system re-programming efforts. Note that every program design will undoubtedly cause some level of programming, reporting and quality control expense.

Capped, Fixed Credits by Income Tier: This program design would have a set of four monthly credits available to eligible participants (*i.e.*, $10, $20, $30, $40). The Agency of Human Services would establish the credit level for an electric utility account based on the household's income/poverty level. Lowest income households would receive the highest credit and higher income households would receive the lowest credit. The credit level would remain the same for the entire program year. The credit would be capped and only applied to the current electric charges of a customer's bill. The credit would not be applied to any past due balances. For example, Customer A has a $50 current bill and is eligible for a $40 credit. The net current bill for Customer A would be $10. Customer B has a current bill of $25 and is eligible for a credit of $40. The net current bill for Customer B would be $0. The net current bill can never be less than $0.

Say Customer A fails to pay its $10 bill in the first month. Next month its unadjusted bill is $40. (It is made up of a current bill of $30 and a past due balance of $10). Customer A has a capped credit of $30 and an adjusted bill of $10. Under this program design, Customer A does not receive the full $40 credit since the credits do not go to pay off past due balances.

The principals behind this program design are as follows. Unlike a Tiered Percentage Discount Program, the customer still has a price signal applying at the margin of their monthly consumption that would induce it to use electricity efficiently and would not create incentives for the customer to fuel–switch, heat with their electric stoves, or purchase cheap, portable resistance heating. Low-use customers would still receive a substantial benefit for their basic needs (refrigeration, cooking, furnace, etc.). However, high-use customers would not be subsidized for their potentially non-basic electric use. A separate element of this program would identify these high use customers and refer them to other programs for installation of efficiency measures and weatherization. Applying credits to only the current month's charges will provide an incentive to not incrementally fall behind with an overdue balance creating a future unworkable non-payment situation. Capping the benefit level will either keep the total program costs reasonable or will allow more low income customers to be served.

Tiered Percentage Discount Program: This program design would be similar to a capped, fixed credit tiered program in that the Agency of Human Services would inform the utility of the tier that an electric account should be assigned. Lowest income households would be assigned to newly created sub-rate classes with rates lower than usual and customary residential rates. For example, the lowest income households might pay rates for all usage that are 50% of normal residential rates.

One element of this program is that it sends a marginal price signal to participants that may encourage the inefficient use of electricity – particularly for space heating. At six cents, (50% of typical residential rate levels) electricity costs roughly $17.50/MBTU. At 80% furnace efficiency and today's oil prices (say $2.60/gal), oil heating costs $23.50/MBTU. This program design certainly provides a price incentive to fuel switch to electricity (which would not be societally cost effective or least cost on a life cycle cost basis). Whether a significant portion of the low income population would do so is uncertain.

Low-Cost Initial Service Blocks: Another program design that CVPS could accommodate is the establishment of low-cost initial service blocks. These could be implemented for the entire population of residential customers or participant customer could be assigned to new sub-rate classes with the initial kWh block at lower and lower prices depending on their household income. This program design would function much like the capped, fixed credit tiered program design in that it would minimize overall program cost by focusing on the usage associated with basic needs while sending an appropriate tailblock price signal for efficient use of electricity. This type of program was implemented previously as an emergency lifeline program for CVPS.

Arrears Forgiveness: The Company does not endorse an elaborate arrears forgiveness program designed to improve and reward customer on-time payment patterns. First, the Company has been working for the past few years to make repayment arrangement schedules that are more flexible, with great success. Working with the DPS, CVPS has been able to significantly reduce disconnections without increasing arrearages or bad debt. Second, the complexity of a reward-based arrears management program would almost certainly offset remaining incremental gains that such a program would hope to achieve. If an arrears forgiveness component is to be incorporated into the program design, CVPS advocates for a capped, one-time arrears forgiveness window during the first year of participant certification.

Start-up and On-Going Costs: Utilities need to be allowed to recover incremental costs associated with development of the Low Income Electric Affordability Program in a timely fashion. As described above, these costs will include costs necessary to redesign existing customer information and billing systems, staff training and incremental costs incurred to promote program participation. CVPS believes that the simpler the program design, the smaller these costs will be (especially since both large and small utilities in Vermont will need to make similar modifications) and, in turn, the greater the percentage of program costs that can be devoted to participant services. We propose that the Board issue an order that will allow for the deferral of such expenses, subject to audit, prior to each utility's subsequent rate case or approve payment of such costs, subject to audit, from the revenue stream authorized to fund assistance.

Conclusion: While CVPS has not been able to develop a full "strawman" proposal, the Company hopes that these program design options and principles will help to inform the efforts of the Affordability Collaborative. The Company stands ready to keep working with stakeholders to help to cost out various program designs and implementation efforts.